Certified Public Accountants

Independent Auditors' Report

and

Financial Statements

of

GOOD NEIGHBORS USA

December 31, 2016

Independent Auditors' Report

The Board of Directors
GOOD NEIGHBORS USA:
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of GOOD NEIGHBORS USA, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of GOOD NEIGHBORS USA as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

UCMK & Associates

Los Angeles, California

May 22, 2017

ASSETS		
Cash	$	157,410
Prepaid expenses and other current assets		9,026
Total current assets		166,436
Property and equipment, net		3,215,144
Other assets		375
Total non-current assets		3,215,519
Total assets	$	3,381,955
LIABILITIES		
Current portion of long-term debt	$	44,440
Accrued expenses and other current liabilities		15,314
Total current liabilities		59,754
Long-term debt, net of current portion		1,863,109
Other liabilities		6,400
Total non-current liabilities		1,869,509
Total liabilities		1,929,263
NET ASSETS		
Unrestricted net assets		1,452,692
Total net assets		1,452,692
Commitments and contingencies		
Total liabilities and net assets	$	3,381,955

See accompanying notes to financial statements.

		Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE				
Contributions	$	8,243,838	—	8,243,838
Support from affiliate		2,789,155	—	2,789,155
Other income		4,581	—	4,581
Total support and revenue		11,037,574	—	11,037,574
EXPENSES				
Program services:				
Child sponsorship		130,972	—	130,972
Water for life		123,364	—	123,364
Project cook stoves		21,274	—	21,274
Emergency relief		1,204,015	—	1,204,015
Global citizenship campaign		8,131	—	8,131
Medical support		7,684,525	—	7,684,525
Other projects		2,500	—	2,500
Indirect program expenses		384,096	—	384,096
Total program services		9,558,877	—	9,558,877
Supporting services:				
Management and general		224,072	—	224,072
Fundraising		331,219	—	331,219
Total supporting services		555,291	—	555,291
Total expenses		10,114,168	—	10,114,168
Change in net assets		923,406	—	923,406
Net assets at beginning of year		529,286	—	529,286
Net assets at end of year	$	1,452,692	—	1,452,692

See accompanying notes to financial statements.

	Program Services	Supporting Services: Management and General	Supporting Services: Fund-raising	Supporting Services: Total Supporting Services	Total Expenses
Child sponsorship	$ 130,972	—	—	—	130,972
Water for life	123,364	—	—	—	123,364
Project cook stoves	21,274	—	—	—	21,274
Emergency relief	1,204,015	—	—	—	1,204,015
Global citizenship campaign	8,131	1,136	2,327	3,463	11,594
Medical support	7,684,525	—	175,493	175,493	7,860,018
Other projects	2,500	—	—	—	2,500
Automobile expenses	5,519	2,932	5,141	8,073	13,592
Advertising	1,093	554	4,756	5,310	6,403
Administration fees	45	—	—	—	45
Bank charges	338	3,227	7,951	11,178	11,516
Depreciation	1,962	44,021	—	44,021	45,983
Dues and subscriptions	12,660	38,557	6,772	45,329	57,989
Insurance	24,032	7,507	5,177	12,684	36,716
Interest	7,147	55,523	7,147	62,670	69,817
Meeting and convention	1,654	2,515	4,797	7,312	8,966
Office expenses	1,424	2,454	462	2,916	4,340
Postage and shipping	1,600	4,241	23	4,264	5,864
Professional fees	89,643	17,368	11,400	28,768	118,411
Rent	24,402	1,325	1,514	2,839	27,241
Repairs and maintenance	3,952	10,357	530	10,887	14,839
Salaries and related taxes	182,279	14,056	47,793	61,849	244,128
Special events	13,593	2,257	38,950	41,207	54,800
Supplies	3,424	6,763	960	7,723	11,147
Travel	6,055	4,254	7,795	12,049	18,104
Utilities	3,274	5,025	2,231	7,256	10,530
Total expenses	$ 9,558,877	224,072	331,219	555,291	10,114,168

See accompanying notes to financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	923,406
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		45,984
Amortization of debt issuance costs		5,271
Changes in prepaid expenses and other current assets		9,659
Changes in other assets		2,125
Changes in accrued expenses and other current liabilities		(13,312)
Changes in other liabilities		6,400
Net cash provided by operating activities		979,533
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures		(3,257,820)
Net cash used in investing activities		(3,257,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt		1,950,000
Principal payments on long-term debt		(33,665)
Payments for debt issuance costs		(14,057)
Net cash provided by financing activities		1,902,278
Net decrease in cash		(376,009)
Cash at beginning of year		533,419
Cash at end of year	$	157,410
Supplemental disclosure of cash paid for interest	$	64,546

See accompanying notes to financial statements.

1. *ORGANIZATION AND BUSINESS DESCRIPTION*

GOOD NEIGHBORS USA (the Organization) is an international humanitarian and community development organization incorporated under the laws of the State of California. The Organization is committed to build a global community where people live together in health, harmony, and dignity.

The Organization is an affiliate of GOOD NEIGHBORS INTERNATIONAL (GNI), a global network of humanitarian organization with its affiliates in 35 countries and 241 field offices in five continents. As a significant partner of GNI, the Organization shares information and works together with GNI for child education, community development, health, sanitation, and disaster relief aid projects. During the year ended December 31, 2016, GNI provided the Organization with contributions of approximately $2,789,000.

The Organization's fundraising, management, and general expenses are fully supported by GNI, so that the contributions from individual donors are only used for the Organization's direct programs.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

2.1. *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for not-for-profit organizations.

2.2. *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily in determining depreciation of property and equipment and allocation of functional expenses.

2.3. *Cash*

The Organization maintains its cash accounts at commercial banks. From time to time, cash balances maintained in one of such banks may exceed $250,000, the maximum insured amount by the Federal Deposit Insurance Corporation. However, management believes they are not exposed to any significant risk on their cash balances.

2.4. *Property and Equipment*

Purchased property and equipment are stated at cost, and donated property and equipment are carried at the approximate fair value at the date of donation. Renewals and betterment that extend the economic useful lives of the related assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Upon sale or disposition of assets, gain or loss is included in the statement of activities.

Depreciation on property and equipment is provided on the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 39.5 years. Leasehold improvements are amortized using the straight-line method over the shorter of underlying lease term or the asset's estimated useful life.

2.5. Net Assets

The Organization presents its financial statements in accordance with the recommendations of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Financial Statements of Not-for-profit Organizations*. Under those provisions, net assets are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time
- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets.

As of December 31, 2016, the Organization did not have any restriction on its net assets.

2.6. Support and Revenue

Contributions are recorded as revenue when received, or when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donors' intent. Donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

The Organization rented out unused space of its property to an unrelated party during the year. Such rental income amounted to approximately $4,000 and is included in other income in the accompanying statement of activities.

2.7. Donated Services

Volunteers participate in the Organization's domestic and international programs. In 2016, 112 volunteers donated their services for approximately 13,000 hours.

Under FASB ASC Subtopic 958-605, *Not-for-Profit Entities - Revenue Recognition*, the donated services must create or enhance nonfinancial assets or require specialized skills to be recognized as revenue. In addition, donated services would typically need to be purchased if not provided by donation in order for them to be recognized as revenue. Accordingly, these donated services were not recognized as revenue in the accompanying financial statements.

2.8. Functional Expenses

The Organization allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to such program or supporting service.

Certain costs of joint activities related to fundraising, management and general, and various projects have been allocated as indicated among the programs and supporting services benefited. In its statements of activities and functional expenses, the Organization classifies such costs allocated to the programs as indirect program expenses. Other expenses allocated to supporting services are included in management and general expenses or fundraising expenses based on the nature of the related activities.

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2.9. Advertising Expense

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2016 was approximately $6,000.

2.10. Income Taxes

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Donors of cash or property are entitled to the maximum charitable contribution deduction allowed by law.

2.11. Fair Value of Financial Instruments

The Organization's financial instruments are primarily composed of cash, accrued expenses, and long-term debt. The fair values of these financial instruments closely approximate their carrying values due to their short-term maturities and interest rates not materially different from the market rates for loans with similar risk factors.

In determining fair values, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels: Level 1, defined as quoted prices in active markets; Level 2, defined as observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3, defined as unobservable inputs about which little or no market data exist, therefore requiring an entity to develop its own assumptions.

2.12. Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

2.13. Recently Adopted Accounting Standards

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which requires, among other changes, debt issuance costs be presented as direct deduction from the face amounts of the related debt in the balance sheets. ASU 2015-03 is effective for the Organization for the year ended December 31, 2016. The Organization adopted ASU 2015-03 as of January 1, 2016. As the Organization did not have capitalized debt issuance costs at January 1, 2016, adopting the ASU 2015-03 did not result in any changes in the balance sheet at the time of adoption.

2.14. Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization for the year ended December 31, 2020, permits early adoption, and mandates a modified retrospective transition method. The Organization is required to adopt ASU 2016-02 on January 1, 2020, but is evaluating

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whether to early adopt the new standard. The Organization is evaluating effects that the new standard will have on the financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2016 consisted of the following:

Land	$	925,086
Building		2,331,642
Computers		13,377
Office equipment		16,265
Furniture and fixtures		5,664
Total costs of property and equipment		3,292,034
Accumulated depreciation		(76,890)
Net book value of property and equipment	$	3,215,144

Depreciation expenses related to the property and equipment were approximately $46,000 for the year ended December 31, 2016.

4. LONG-TERM DEBT

The Organization obtained a term loan from a commercial bank by providing its building as a collateral and an executive’s personal guarantee. The loan was originally for $1,950,000 and incurs interest at fixed interest rate of 4.5%. Principal of the loan is to be paid off with 23 equal monthly payments of approximately $11,000 and a balloon payment of approximately $1,873,000 in March 2018.

The Organization incurred debt issuance costs in connection with aforementioned long-term debt. These costs were capitalized as deferred financing costs and presented as a direct reduction of the related long-term debt in the accompanying balance sheet. At December 31, 2016, deferred financing costs amounted to approximately $14,000, which is amortized into interest expense over the term of the note. Interest expense recognized related to such amortization for the year ended December 31, 2016 was approximately $5,000.

5. COMMITMENTS AND CONTINGENCIES

The Organization may be involved in various claims and legal actions arising in the ordinary course of activities. In the opinion of management, the Organization is not involved in matters of which the ultimate disposition will have a material adverse effect on the Organization’s financial position, results of operations, or liquidity.

6. SUBSEQUENT EVENTS

As of the report date, the Organization has disposed of the property and is in process of acquiring a new property. The old property was acquired in April 2016 mainly to be used as the Organization's main office space. The Organization plans to replace the old property with a better suited property for the Organization's activities.

The Organization has evaluated subsequent events from the date of the statement of financial position through May 22, 2017, the date at which the financial statements were available to be issued, and determined there have been no other subsequent events that occurred during such period that would require disclosure or would be required to be recognized in the financial statements as of December 31, 2016.